

## **The Imperial C.E.O.**

How Moral Posturing, Hubris, and a Single-Minded Quest for Power  
Brought Down the Deal of the Century

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*Fools Rush In: Steve Case, Jerry Levin, and the Unmaking of AOL Time Warner*

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Does anyone in this room remember a time when a CEO was just a boss? Not a visionary or a charismatic empire builder or an oracle—but just a boss.

It wasn't that long ago. The cult of the CEO is actually a relatively new phenomenon. As recently as the 1970s, CEOs tended to be understated, even anonymous. They weren't faceless bureaucrats—I won't go that far. But they were not celebrities. During the *entire* decade of the 70s, for example, only eight issues of Fortune magazine featured a CEO on the cover. Back then, it was industry itself—heavy machinery, coal mines, power plants, railroads—that inspired awe and confidence. The CEO was the person hired to run things.

By the mid-1980s, the image of the CEO started to change. Remember Lee Iacocca? He may have been the first celebrity CEO. Iacocca swept in and rescued Chrysler and was cast, or cast himself, as the great American hero. He appeared in People magazine. Men and women lined up to get his autograph. They hung on his every word. His autobiography, titled *Iacocca* (of course) sold *seven million* copies.

After that, the CEO became part of popular culture: the Mick Jagger of the boardroom. The media, hungry for content, and having discovered that CEOs could be packaged and promoted like any other celebrity, played the trend for all it was worth. Bill Gates appeared on the cover of Fortune for the first time in 1986. He was 30 years old and had just taken Microsoft public. Over the next 15 years, Gates landed on the cover of Fortune *25 times*. In the 1990s, Jack Welch was on the cover of Fortune 13 times. They were stars, those men.

By the late 1990s it was conventional wisdom and therefore true: a company *needed* a celebrity CEO. It wasn't enough to have a talented manager or accountant or engineer running a public company: the CEO had to be someone with enough presence and charisma to talk up the company's stock on CNBC, seduce analysts, charm money managers, and, of course, make the cover of Fortune.

Now, at first all those CEOs may have regarded this whole great-leader-rock-star persona objectively: as a scheme dreamed up by the company's PR division. I mean, no CEO in his right mind actually believes that he *alone* runs a company—right?

But all those cover stories—that praise and adulation—it goes to your head. Predictably many CEOs started to believe their own myth: they *were* invincible and untouchable.

Naturally such demi-gods deserved—no, were *entitled* to—guaranteed bonuses, massive stock option grants, golden handcuffs, golden handshakes, golden everything under the sun. From the skewed perspective of a growing number of Imperial CEOs, the supposedly public companies they were running were personal fiefs funded by public money.

Does the name “Chainsaw Al” or Al Dunlap ring a bell? He was once such a celebrity, such a demi-god, that on the day he was named CEO of Sunbeam in 1996, the company's stock jumped 60 percent. Dunlap was ahead of his time. In retrospect he foreshadowed the hubris and greed that in 1996 was only beginning to sweep corporate America. In *his*

best-selling autobiography, Dunlap argued that he was entitled to the \$100 million he earned at Sunbeam. “I’m a superstar in my field much like Michael Jordan in basketball,” he explained. Of course, that was *before* he was charged with fraud—and before he drove Sunbeam into bankruptcy.

Consider Disney’s CEO Michael Eisner, one of my favorite example of the celebrity CEO who began to believe his own press. Disney may be a public company, but Eisner appears to believe it’s his own personal empire. Until recently, Disney’s board of directors included Eisner’s personal lawyer, his architect, the principal of his children’s school, and the actor Sidney Poitier. Many of these same directors served on Disney’s compensation committee which helps explain why, over the past 13 years, Eisner has been paid 800 million US dollars even while Disney’s stock has underperformed U.S. Treasury bills.



Let me back up and talk about AOL and Time Warner. I decided to write a book about the AOL Time Warner debacle because, in a nutshell, it’s a story about the late 1990s. For one thing, it’s the story of speculative mania. Think about it: AOL was an Internet company that had been in business for just 15 years—a company with a single product, with one-fifth the revenue of Time Warner, and a 39-year old CEO named Steve Case. On Monday, January 10, 2000—just two and half months before Internet stocks peaked and then collapsed—AOL used its inflated Internet paper to buy the world’s biggest and most powerful media and entertainment company for \$165 billion. It was the biggest merger in history and it was insane. The world as we knew it was upside down.

Back then, almost any company selling almost anything related to the Internet could be taken public—and AOL was the “blue chip” Internet company, at least according to the analyst Henry Blodget. No company was hotter than AOL. During the 1990s, its stock climbed 80,000 percent—that’s a real number—making it the best performing large-cap stock of the decade, better than Microsoft or General Electric by miles.

By 1999, more than 2,000 millionaires were working for AOL. AOLers were so rich that the company’s human resources department started holding seminars entitled, “How to Handle Employees Who Are Already Millionaires.” As measured by market cap, AOL was one of the 25 biggest companies in the world in 1999. Yes, it was worth twice as much as Time Warner—but it was also worth more than McDonald’s, Philip Morris, and Pepsi combined. It was worth twice as much as Warren Buffet’s Berkshire Hathaway, and far more than General Motors and Boeing combined.

In another era, a less manic one, Time Warner could have swallowed America Online without blinking. But the late 1990s were not normal times. From the perspective of the stock market—and what other perspective mattered back then?—AOL, a company with revenues of only \$5 billion, was worth twice as much as Time Warner, a company with revenues of \$27 billion. And every time you looked, AOL’s stock climbed higher and higher.

But the story of AOL Time Warner is not just a cautionary tale about stock market

manias. The disastrous AOL Time Warner deal underlines the consequences of making celebrities out of men and women who are charged with looking after other people's money. Look at the AOL Time Warner deal closely and you see how easily the vanity and blind ambition of a company's CEO can come to count for more than a company's shareholders.

As Jerry Levin himself told me, he was "an Imperial CEO." After ten years at the helm of the world's most powerful media and entertainment company, Levin was accustomed to being treated like a emperor. Over the years, one by one, he'd eliminated anyone who threatened his position until, by the late 1990s, he was running his company with very few checks and balances. As the New York Times noted in a recent review of my book: "Chief executives like Levin have the sort of arbitrary power of which despots can only dream."

In 1999, however, like many Fortune 500 CEOs at the peak of the dotcom frenzy, Jerry Levin felt impotent. Yes, he was CEO of this giant company, and the company was growing at a nice, respectable pace. But in 1999, that pace wasn't fast enough. In the view of Wall Street, Time Warner was "old media"—it was treading water, it was practically obsolete.

And you see, few things enraged Levin more than to be thought of as old-fashioned and out of date. In Levin's mind, he was a bold, farsighted creative leader—in a word, Levin believed he was a visionary.

Now, there may be a fine line between having a vision and being deluded. And when you surround yourself with yes-men and puppets, as most imperial CEOs do, you become ever more isolated from reality—ever more deluded, in other words.

Levin took a first-class company with solid growth and lots of cash flow, a company that dated back to 1923 when the first issue of Time magazine was published, and traded it for a concept—the abstract promise of a digital future. His shareholders, who were paid with Internet paper instead of cash, wound up with just 45 percent of this new AOL-controlled company. As one of AOL's bankers marveled to me after the deal was done: "Nina: We were paying with Brazilian cruzeiros and they accepted them as British pounds."

Here's the most amazing thing: Jerry Levin negotiated the deal with AOL in almost total secrecy. This merger, the biggest merger ever, wasn't revealed to his top people until it was a done deal. Convinced that only he had the foresight to transform Time Warner and lead it through the digital revolution, Levin, the typical Imperial CEO, discouraged debate and was hostile to ideas that undermined his own. Levin didn't want to hear about other people's visions—he wanted people to execute his own vision.

During months of intense negotiations with Steve Case in late 1999, Levin involved only three of his senior executives. Most of the other executives at Time Warner found out that their company was being sold to AOL twenty-four hours before the deal was announced to the public. Don Logan, head of Time Warner's giant Time Inc. publishing division, heard about the deal by way of a phone call. He was in Hawaii at the time. "You've got to be BLEEPING kidding me!" he shouted. "That's the dumbest thing I've ever heard in my

life. I hope you're joking."

Levin was not joking. The deal had already been approved by Time Warner's board, a group of men and women who were docile or clueless or just tired. One way or another, they were well-paid rubber stamps. One director told me that once, years earlier, soon after he had joined the Time Warner board, he had openly disagreed with Jerry Levin at a board meeting. Afterwards he was taken aside by a colleague, a longtime TW director who gently told him: "You may not know this yet, but you either do things Jerry's way or you don't stay on this board."

Ultimately what mattered most to Jerry Levin in negotiating the deal with AOL was status and power: he *had* to wind up as CEO of the giant new company. This merger, the biggest in financial history, would be the defining moment of his career. It would prove for all time that he was a bold, farsighted creative leader. Sure, on paper his shareholders were getting less than half the new company; despite that, it would still be *his* company, fueled by *his* vision.

The exchange ratio was out of whack. AOL was buying TW. Levin's shareholders were short-changed. Many of his executives—his corporate counsel, his chief financial officer, his chief lobbyist, his heads of investor and public relations, and on and on—were pushed out and replaced by their counterparts at AOL. The stock symbol of the new combined company was AOL. Despite those facts, as far as Jerry Levin was concerned, it was a merger, a merger of equals. Over and over he repeated just that: this is a merger of equals.



While doing the research for my book I asked Jerry Levin how he'd been able to rationalize giving AOL more than half the combined company. He said: "I realized that it didn't matter what the numbers were because we were equals."

In one awful sense they *were* equals—I mean, if you look at the human toll, then *everyone* involved was hurt by the deal. In the two years following Levin's decision to sell his company to AOL, 200 BILLION US dollars worth of shareholder value was destroyed. An American institution—one of the oldest, most respected companies in the US—was very nearly brought down. Ten thousand people lost their jobs. Ten of thousands of people saw their retirement plans wiped out.

In the name of progress, the old generous profit-sharing plan held by every Time Warner employee was eliminated and replaced with AOL TW stock options. Stock options were meant to inject the new company with all of AOL's winning qualities: Internet hustle and bustle and all the things we admired in 1999. Instead, 85,000 people were left holding worthless pieces of paper.

That's not all. You see, even as the retirement accounts of their employees were sinking, the most senior AOL TW executives and directors were jumping into the lifeboat. In 2001, insiders unloaded nearly \$1 billion worth of stock. They figured they were entitled to at least that.

In the spring of 2001, just after regulators had finally approved the deal, and just about the time the AOL Time Warner stock hit its all-time high, the company's chairman, Steve Case, dumped \$100 million worth of shares. Dick Parsons, then co-chief operating officer, now the company's CEO, made a quick \$35 million selling stock that spring. Bob Pittman, co-COO, unloaded \$72 million of stock. At least a dozen other executives and directors sold stock as well.

Of course, there's nothing *illegal* about insiders selling stock—not if you report it. But here's the rub: while insiders were dumping \$1 billion of their own holdings, the company was in the midst of a massive stock buyback program. Steve Case was selling \$100 million worth of his own stock while his company, AOL Time Warner, was spending \$1.3 billion to buy back its stock on the open market. Buyback programs are a signal to investors that a company's management believes its stock is undervalued.

As everyone in this room knows, the stock market is not a zero-sum game. As soon as a AOL Time Warner executive got out in the spring of 2001, some investor, believing that the stock was undervalued, jumped in. Then, like a stone, the company's stock sank, dropping 85 percent. It hasn't recovered.

By the spring of 2001, those men (yes, they were all men) knew that the company was sinking. My book makes that clear. In panic, they resorted to well-known tricks of the trade: double-booking revenue; inflating ad sales; booking round-trip barter deals as if real money had actually exchanged hands. While all that and more was going on, the men were conning and charming the Street—doing whatever had to be done to keep the stock from tanking. At the same time they were dumping their own stock. You will not be surprised to learn that 50 shareholder class-action lawsuits are still pending against the company. Or that the SEC is investigating the company's accounting. Or that the US Department of Justice has launched a criminal investigation.

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A few months ago, as my book was going to press, I spoke to Jerry Levin. His reputation, his power, his job—he'd lost them all. At Time Warner's headquarters in New York, Levin's photograph is pinned onto dart boards. People spend their days mopping up the mess he made. And so I asked him: did he regret doing the AOL deal? "I have no regrets," Levin replied, as if my nostalgic question had surprised him. "It is what it is."

The imperial CEO never admits defeat. His delusion is so complete, his egotism so absorbing, that he sees nothing but the inside of his own mind.

Some months ago, when the problems at Hollinger were starting to surface, I read a terrific article in the *Globe & Mail*. The reporter, who had phoned Conrad Black at his home in Palm Beach, asked if the growing financial crisis at Hollinger had forced him into a corner. "There is no financial crisis in our company," Lord Black replied. "I'm sitting here in Palm Beach watching the majestically swaying royal palms in my garden, and I do

*not* feel cornered and I am *not* against the wall.”

Reading that quotation more than once I was reminded of Baghdad Bob, Saddam Hussein’s Minister of Information, or Disinformation—the deluded man wearing the beret who held daily war briefings in Baghdad. On April 7, 2003, as American tanks were rolling into Baghdad, the Minister of Information called a press conference to set the record straight. With the sound of gun-fire echoing behind him, he announced: “There are NO American infidels in Baghdad.”

Thank you.

